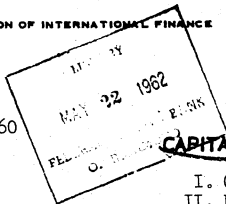


H. 13

No. 60



May 18, 1962

**CAPITAL MARKET DEVELOPMENTS ABROAD**

- I. Canada
- II. Nine Charts on Financial Markets Abroad

I. Canada: Money and Capital Markets during April

Continued sales of Canadian dollars in the foreign exchange market during April culminated on May 2 in the adoption by Canada of a fixed exchange rate of 92.5 U. S. cents for the currency. The rate was held during April at around 95-1/4 U. S. cents by means of heavy official support operations. Sales of U. S. dollars by the Exchange Fund amounted to (U. S.) \$114 million in April and official reserve losses in the first four months of this year to (U. S.) \$460 million. The decision to set a par value, taken with the approval of the International Monetary Fund, brought to an end the Canadian experiment with a fluctuating exchange-rate policy initiated in 1950.

Canadian short-term money rates moved up sharply in early May after the new par value was announced. At 3.24 per cent on May 10, the Canadian Treasury bill yield was at the highest point in nearly twelve months. In the bond market, yields continued to drift downward in late April and early May. The average yield for 40 provincial and corporate bonds eased from 5.25 per cent on March 30 to 5.22 per cent on April 30, the lowest average yield since February 1959.

The rise in Treasury bill rates reflected in part substantial sales by the chartered banks to finance their recent loan expansion. Government deposits rose further by \$242 million in the first week in May to a record peak of \$986 million on May 9. Receipts of Canadian currency from sales of foreign exchange undoubtedly contributed to the recent growth in these Treasury balances. Since the authorities will have to be in a position to finance reserve accruals, it is likely that the Treasury balances may be maintained at a higher level than has been the practice in the past decade. Since the bulk of recent Treasury deposit accruals have been retained at the chartered banks, they have not immediately affected commercial-bank reserve availabilities.

Despite the recent expansion in bank loans, the Canadian business trends remain mixed. Even though Canadian observers expect an increase in gross national product of about 6 per cent this year, some continued slackening in business expansion is recorded in statistical indicators for the first quarter. Seasonally-adjusted industrial production was at 180.7 in December 1961 and at 180.5 in February. After a pause in February, industrial employment registered further gains in March and unemployment declined from 6.0 to 5.8 per cent. Retail trade declined fractionally in February.

NOT FOR PUBLICATION

DECONTROLLED AFTER SIX MONTHS

Since its stabilization on May 2, the Canadian dollar has been under selling pressures and the spot rate has declined from 92.73 U. S. cents on May 4 to 91.81 U. S. cents on May 15. The forward dollar was quoted at a discount of 0.43 per cent per annum on May 3 and of 0.31 per cent on May 15.

Money market. After declining from mid-March through April, Canadian short-term interest rates moved upward in early May. The 3-month Treasury bill remained around 3.04 to 3.10 per cent from April 5 to April 26 but moved to 3.19 per cent on May 3 and 3.24 per cent on May 10 (See Table and Chart 1). The 6-month bill rate moved more narrowly; it was 3.30 per cent on April 5, 3.35 per cent on May 3, and 3.38 per cent on May 10. Day-to-day was at 3.20 per cent on April 4, but the rate remained unchanged at 3.00 per cent for the remainder of April and the first two weeks in May.

In April, the Canadian chartered banks accelerated their sales of Treasury bills. Their sales of \$106 million during the month (See table) were matched by purchases by the general public (\$42 million), by the Government accounts (\$50 million), and by the Bank of Canada (\$14 million). Net sales of other securities represented in part the redemption of an outstanding maturity in connection with the refunding operation announced on April 11 and summarized in the previous report.

The incentive in favor of the Canadian Treasury bill against the U. S. bill was reduced from 0.37 per cent on March 29 to 0.17 per cent on May 10, largely because of the substantial discount on the forward Canadian dollar in late April and early May. (See Table and Chart 1.)

However, the spread in favor of Canadian finance paper widened from 0.12 per cent on March 30 to 0.57 per cent on May 10 as Canadian yields rose. The wider differentials are reported to have attracted some U. S. investor interest in Canadian paper. Comparative yields on 30-to-89 day paper for leading acceptance houses were (in per cent per annum):

	<u>Canada</u>	<u>U. S.</u>	<u>Spread</u>
March 30	2.88-3.00	2.88	0.12
April 26	3.25-3.50	2.88-3.00	0.44
May 10	3.25-3.50	2.75-2.88	0.57

Bond market. Canadian Government bond yields declined during April but the movement was reversed in the first two weeks in May. (See Table and Chart 6.) Recent Canadian yields (in per cent per annum) were:

	<u>1964</u>	<u>1975-78</u>	<u>1983</u>
	<u>May</u>	<u>(Jan.)</u>	<u>(Sept.)</u>
Jan. 31	3.75	4.98	5.04
Mar. 28	3.58	4.86	4.94
Apr. 25	3.47	4.78	4.87
May 9	3.59	4.83	4.91

In April, the spread in Canadian over U. S. bonds declined in intermediate and long-term maturities but widened in early May. (See Table.)

As in March, heavy demand from institutional investor, combined with a reduced volume of new offerings coming on the market, contributed to a continued decline during April in yields in the provincial and corporate bond sectors. Yields on provincial and corporate bonds declined from 5.25 per cent on March 30 to 5.22 on April 30; this marks the lowest level since February, 1959. According to the monthly report prepared by McLeod, Young, Weir and Company, recent average bond yields were (in per cent per annum):

	1962		
	Feb. 28	Mar. 30	Apr. 30
10 Provincial	5.31	5.20	5.19
10 Municipal	5.54	5.44	5.38
10 Public utilities	5.23	5.18	5.17
10 Industrials	5.28	5.18	5.15
40 Bond yield average	5.34	5.25	5.22

According to A.E. Ames & Co., \$1,141 million of new securities (exclusive of regular short-term financing) were issued in the period ending April 24; this compares with new issues totalling \$1,361 million in the comparable period in 1961. Of the new issues reported through April 24, \$4.5 million in corporate and municipal bonds were sold in the U. S. market.

Bank loans and the money supply. On a seasonally adjusted basis, general bank loans have been expanding sharply. In the first quarter of this year, they rose by 6.5 per cent compared with a year-ago increase of 2 per cent. At the end of March, general bank loans outstanding were at a level 16 per cent above the end of March 1961. The money supply also rose during the quarter, although the increase of 1.9 per cent is only moderately above the expansion by 1.5 per cent in January-March 1961. Money supply at the end of March was 8.8 per cent greater than on the same date last year.

Although data on a comparable basis are not yet available for April, it would appear that bank credit continued to expand. The loan expansion was supported in part by bank sales of Treasury bills and was reflected in some tightening in bank liquidity. The average liquid asset ratio of the Canadian chartered banks, which was 18.0 per cent in both February and March, declined to 17.1 per cent in April -- still well above the required minimum of 15 per cent. Throughout the period, the cash ratio was unchanged at 8.1 per cent.

Operations of Canadian banks in non-Canadian currencies. In February, the return flow of non-Canadian currency deposits with Canadian chartered banks continued -- as in January -- but at a much reduced pace. (See Table.) This return flow, reversing the loss of deposits in December 1961, brought total non-Canadian currency deposits to \$3.9 billion at the end of February, comparable to the record level recorded at the end of November, 1961. In March, however, non-Canadian dollar deposits declined moderately -- by \$115 million -- to a total of \$3.8 billion.

"Call loans" by Canadian banks in the New York market showed little change in March. Estimates of the New York State Banking Department show recent total loans to security dealers (in millions of U. S. dollars):

	1960 <u>Dec.</u>	1961 <u>Dec.</u>	<u>Jan.</u>	1962 <u>Feb.</u>	<u>Mar.</u>
U. S. banks	1,496	1,963	1,288	1,775	1,822
Foreign agencies	849	859	881	823	875
<u>Compare</u>					
Canadian a/	829	809	786	743	784
Other (residual)	20	50	95	80	91

a/ Call loans, as reported by Canadian banks, converted into U. S. dollars at end-of-month exchange rate.

Borrowings by municipalities. During 1961, borrowings by municipalities increased by \$361 million compared with rises of \$479 and \$372 millions in the two preceding calendar years. Total debt has increased from \$3,564 million in 1958 to \$4,775 million in 1961. The breakdown of debt by principal provinces is (in millions of dollars):

	<u>1958</u>	<u>1959</u>	<u>1960</u>	<u>1961</u>
Ontario	1,321	1,452	1,604	1,722
Quebec	1,156	1,263	1,452	1,609
Alberta	360	409	439	474
British Columbia	318	355	401	417
Other	409	456	519	553
Total	3,564	3,935	4,415	4,775

No figures are available on the volume of these borrowings placed in United States markets.

Foreign trade. Canadian trade, seasonally adjusted, showed only minor deficits in January and February. Recent trade estimates (monthly or monthly averages in millions of Canadian dollars) have been:

	<u>1961</u>				<u>1962</u>	
	<u>I</u>	<u>II</u>	<u>III</u>	<u>IV</u>	<u>Jan.</u>	<u>Feb.</u>
Exports	459.3	473.5	514.4	520.3	504.7	495.5
Imports	456.7	443.2	495.5	518.9	507.5	508.6
Trade balance	- 2.6	+30.3	+18.9	+ 1.4	- 2.8	-13.1

Foreign exchange. The adoption on May 2 of a fixed rate of 92.5 U. S. cents for the Canadian dollar, ending the fluctuating exchange rate policy pursued since 1950, was the highlight of the month. The likelihood

of some exchange rate move, possibly after the Canadian elections in June, had been widely anticipated in market circles. The May 2 action came unexpectedly, however, and was apparently motivated by the fear of continued heavy reserve losses on the scale experienced by the exchange authorities throughout April.

The Canadian dollar was under continuous pressure throughout April, when it was held at around 95-1/4 U. S. cents by official sales of U. S. \$114 million in the market. For the first four months this year, losses came to \$460 million. This represents a drain amounting to almost one-quarter of official holdings of gold and U. S. dollars at the end of December 1961.

After the par value was announced, the rate declined from 92.73 U. S. cents on May 3 to a low of 91.81 U. S. cents on May 15. Some withdrawal of funds from Canada by U. S. and Continental investors was reported in the press. Recent changes in Canadian reserves (in millions of U. S. dollars at end-of-month):

	1961	1962			
	Dec.	Jan.	Feb.	Mar.	Apr.
Gold	946.2	949.6	962.4	963.7	n.a.
U. S. dollars	<u>1,109.6</u>	<u>.972.3</u>	<u>784.3</u>	<u>745.7</u>	<u>n.a.</u>
Total	2,055.8	1,921.9	1,746.7	1,709.4	1,595.0
Change during period	- 23.0	- 133.9	- 175.2	- 37.3	- 114.4

Throughout April the 3-month forward Canadian dollar remained at a slight discount, which widened somewhat after the May 2 exchange rate action. Despite the wider spread in yields between the Canadian and U. S. Treasury bills, however, the incentive to hold Canadian bills (covered for exchange risk) is currently still below levels which operate to induce any movement of funds into Canada.

Stock exchange. On balance, Canadian industrial stock prices declined moderately in April, despite a slight rally in the third week of the month, and again at the beginning of May. The weekly average for the index of industrial stock prices on May 2 was 0.8 per cent below April 4. During the same period the New York Standard & Poor industrial index dropped more sharply by 4.3 per cent.

<u>Avg. for week ending</u>	<u>DBS Industrials</u>	<u>N.Y. Standard &amp; Poor Industrials</u>
1962-Mar. 8	349.1	73.94
Apr. 5	339.7	72.59
26	337.2	71.15
May 3	339.1	69.44

Europe and British Commonwealth Section.

## II. Nine Charts on Financial Markets Abroad

## Canada: Treasury Bill Yields and Exchange Rates

3-mo. Treas. bill arbitrage calculation								
Canada a/	U.S. a/	Differ- ence	In		Spot Can. \$ (U.S. cents)	Finance paper <sup>d/</sup>		
			3-mo. Can. \$ b/	favor Can. bill <sup>c/</sup>		30-89 days	90-179 days	
1961-High	3.34	2.66	0.68	0.45	0.89	101.72	--	--
Low	2.26	2.17	-0.13	-0.56	-0.20	95.91	--	--
1962-Mar. 15	3.08	2.73	0.35	+0.07	0.42	95.33	2-7/8 to 3	3-1/8-1/4
22	3.10	2.69	0.41	+0.13	0.54	95.31	2-7/8 to 3	3-1/8-1/4
29	3.12	2.75	0.37	0	0.37	95.28	2-7/8 to 3	3-1/4
Apr. 5	3.09	2.72	0.37	0	0.37	95.23	--	--
12	3.04	2.73	0.31	-0.07	0.24	95.30	--	--
19	3.10	2.73	0.37	-0.19	0.18	95.23	3-1/4	3-1/2
26	3.07	2.73	0.34	-0.19	0.15	95.23	3-1/4	3-1/2
May 3	3.19	2.73	0.46	-0.43	0.03	92.78	3-1/4	3-1/2
10	3.24	2.66	0.58	-0.31	0.17	92.52	3-1/4	3-1/2

a/ Thursday quotations.

b/ Spread between spot and 3-month forward rate in per cent per annum. Discount equals (-).

c/ Net of difference in bill yield less discount on 3-month Canadian dollar.

d/ Friday quotations.

## Selected Government of Canada Security Yields

	6-mo. Treas. bills		Intermediate bonds (8 yr.)		Long-term bonds			
	Canada a/	Spread over U.S. b/	Canada c/	Spread over U.S. d/	(20 year)		(35 year)	
		e/		f/	Canada g/	Spread over U.S. h/	Canada g/	Spread over U.S. h/
1961-High	3.63	1.15	4.75	1.16	5.19	1.40	5.23	1.59
Low	2.35	-0.11	4.17	0.04	4.80	0.78	4.92	1.14
Mar. 28	3.29	0.41	4.11	0.32	4.82	0.82	4.91	1.18
Apr. 4	3.30	0.49	4.12	0.53	4.82	0.92	4.91	1.23
11	3.24	0.39	4.13	0.45	4.77	0.85	4.88	1.18
18	3.30	0.48	4.06	0.45	4.73	0.83	4.86	1.19
25	3.19	0.36	4.04	0.40	4.74	0.83	4.86	1.16
May 2	3.35	0.53	4.04	0.49	4.74	0.86	4.86	1.20
9	3.38	0.61	4.05	0.50	4.77	0.91	4.84	1.20

a/ Average yield at weekly tender on Thursday.

b/ Spread between Canadian auction rate and composite market yield of U.S. bill on close of business Thursday.

c/ Government of Canada 2-3/4 per cent of June 1967-68.

d/ Spread over U.S. Government 2-1/2 per cent of 1963-68.

e/ Government of Canada 3-1/4 per cent of October 1979.

f/ Spread over U.S. Government 3-1/4 per cent of 1978-83.

g/ Government of Canada 3-3/4 per cent of September 1996 - March 1998.

h/ Spread over U.S. Government of 1995.

**Canada: Changes in Distribution of Holdings of Canadian  
Government Direct and Guaranteed Securities**  
(millions of Canadian dollars, par value)

	<u>Bank of Canada</u>		<u>Government Total</u>	<u>Chartered banks</u>		<u>General public</u>		
	<u>Treas. bills</u>	<u>Bonds</u>		<u>Treas. bills</u>	<u>Bonds</u>	<u>Savings bonds</u>	<u>Treas. bills</u>	<u>Bonds</u>
1961-April	+ 9	+ 59	- 2	- 70	- 52	- 37	+ 64	- 12
May	+ 17	- 22	- 1	+ 63	+ 24	- 33	- 80	+ 1
June	- 74	+ 43	+ 5	+ 33	+ 62	- 22	- 7	+ 37
July	+ 69	+ 21	+ 16	+ 16	+ 11	- 23	- 95	- 37
Aug.	0	+ 21	+ 32	+107	+148	- 29	- 87	- 35
Sept.	+ 16	+ 44	+ 9	- 58	+ 72	- 24	+ 40	+ 42
Oct.	-105	+ 14	- 39	+109	+ 4	+ 4	- 3	- 31
Nov.	- 9	+ 3	-125	- 42	+ 56	+720	+ 48	- 67
Dec.	- 3	+ 32	+ 21	- 48	+111	+ 24	+ 47	- 77
1962-Jan.	- 69	- 1	+ 88	+ 48	+ 57	- 10	- 20	- 19
Feb.	- 42	- 44	- 19	- 8	- 4	- 4	+ 69	- 34
Mar.	+ 30	+ 51	- 51	- 30	+ 43	- 13	- 18	+ 87
April	+ 14	+ 46	-117	-106	- 23	- 17	+ 42	- 31

Source: Bank of Canada, Weekly Financial Statistics.

**Canadian banks: Non-Canadian Currency Assets and Liabilities**  
(in billions of Canadian dollars)

	<u>Deposits</u>			<u>Assets</u>				
	<u>Banks</u>	<u>Others</u>	<u>Total</u>	<u>Deposits with banks</u>	<u>Call loans</u>	<u>Securi- ties</u>	<u>Other loans</u>	<u>Total</u>
<u>End of year</u>								
1957	.3	1.5	1.8	.4	.6	.4	.5	1.9
1958	.4	1.7	2.1	.3	.6	.5	.7	2.1
1959	.5	1.9	2.4	.4	.7	.5	.8	2.4
1960	.7	2.0	2.7	.5	.8	.6	.8	2.7
1961	.7	2.8	3.5	1.0	.8	.7	1.1	3.6
<u>End of Quarter</u>								
1961: I	.6	2.3	2.8	.6	.7	.8	.7	2.8
II	.6	2.8	3.3	.8	1.0	.7	.8	3.3
III	.6	2.9	3.5	.9	.8	.9	.9	3.5
IV	.7	2.8	3.5	1.0	.8	.7	1.1	3.6
<u>End of month</u>								
1961: Oct.	.7	3.0	3.7	1.0	.9	.8	.9	3.6
Nov.	.7	3.2	3.9	1.0	.9	1.0	1.0	3.9
Dec.	.7	2.8	3.5	1.0	.8	.7	1.1	3.6
1962: Jan.	.8	3.0	3.8	.9	.8	1.1	1.0	3.8
Feb.	.8	3.1	3.9	.9	.8	1.2	1.0	3.9
Mar.	.8	3.0	3.8	.9	.8	.9	1.1	3.7

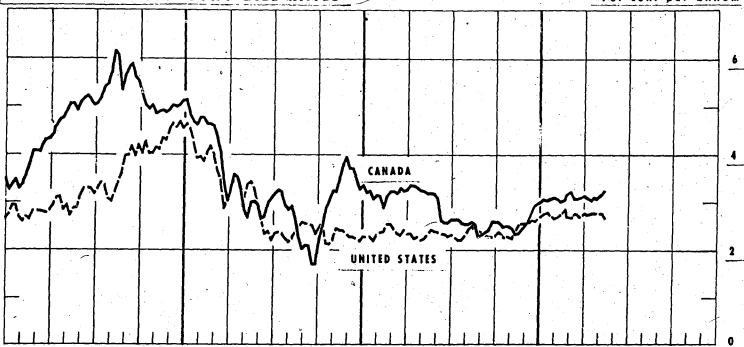
Chart 1

### INTEREST ARBITRAGE, UNITED STATES / CANADA

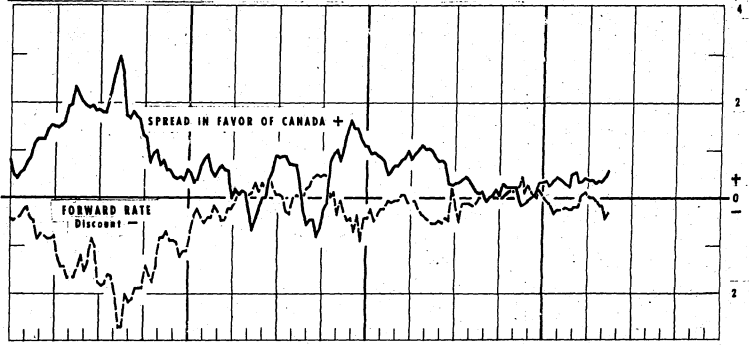
Thursday figures

#### THREE-MONTH TREASURY BILL RATES

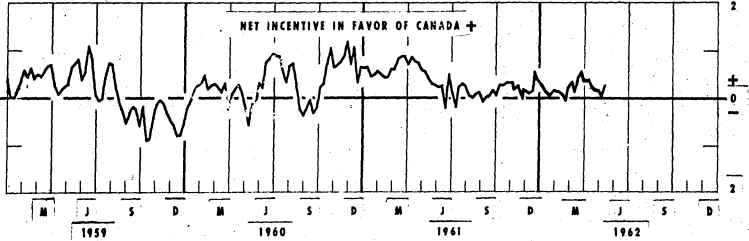
Per cent per annum



#### RATE DIFFERENTIAL AND FORWARD CANADIAN DOLLAR



#### RATE DIFFERENTIAL WITH FORWARD EXCHANGE COVER





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Chart 2

### INTEREST ARBITRAGE, NEW YORK/LONDON

Friday figures

Per cent per annum

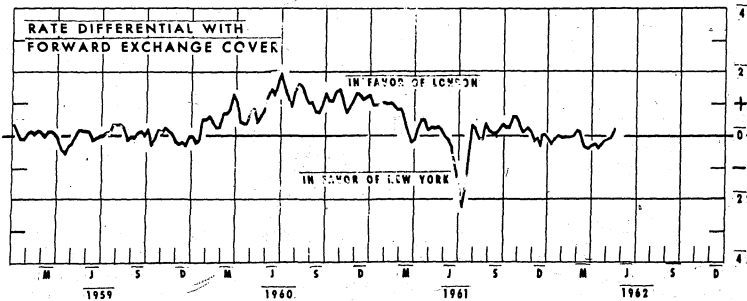
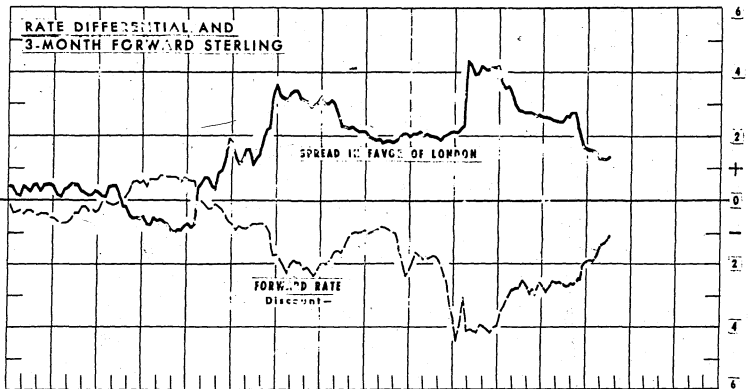
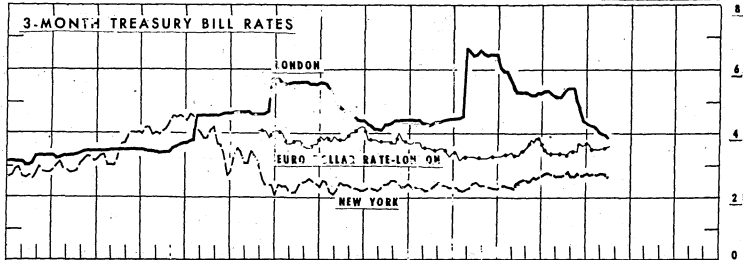
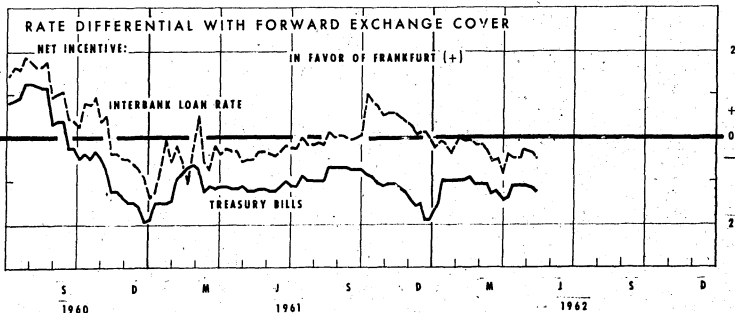
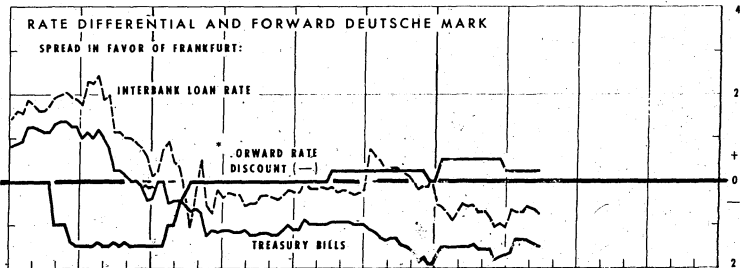
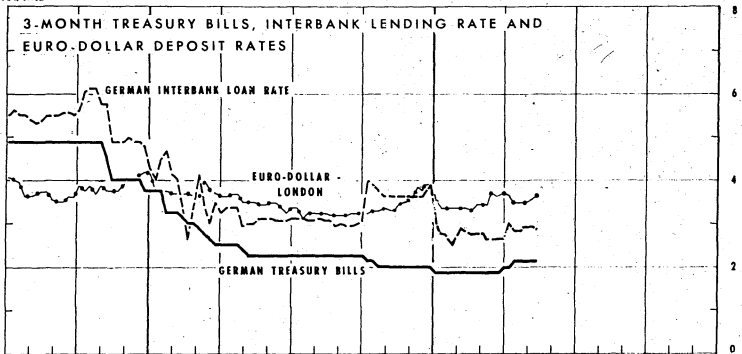


Chart 3

**INTEREST ARBITRAGE FOR GERMAN COMMERCIAL BANKS**

Friday figures

Per cent per annum



Note: Special forward rate available to German commercial banks

Chart 4

### INTEREST ARBITRAGE, FRANKFURT / LONDON

Friday figures

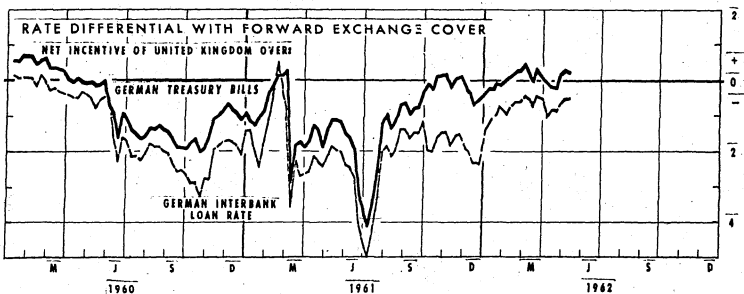
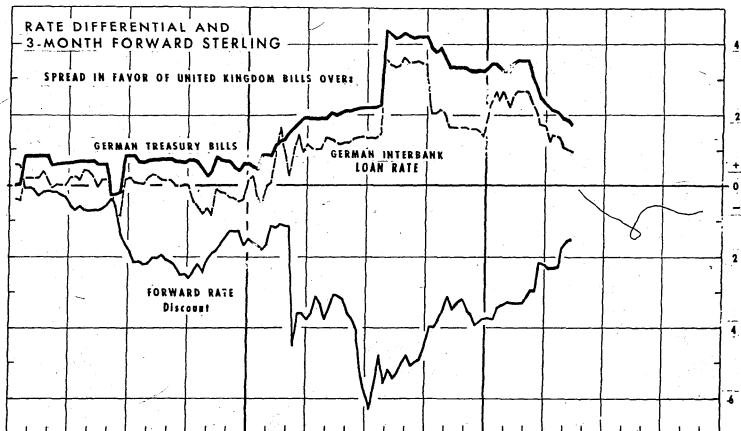
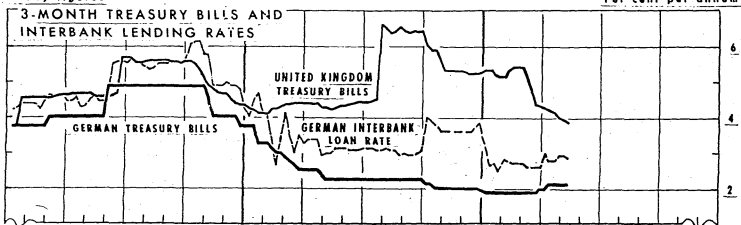
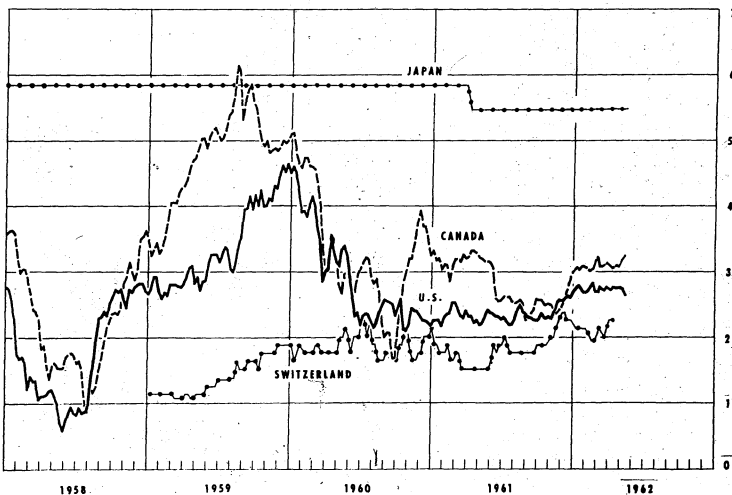
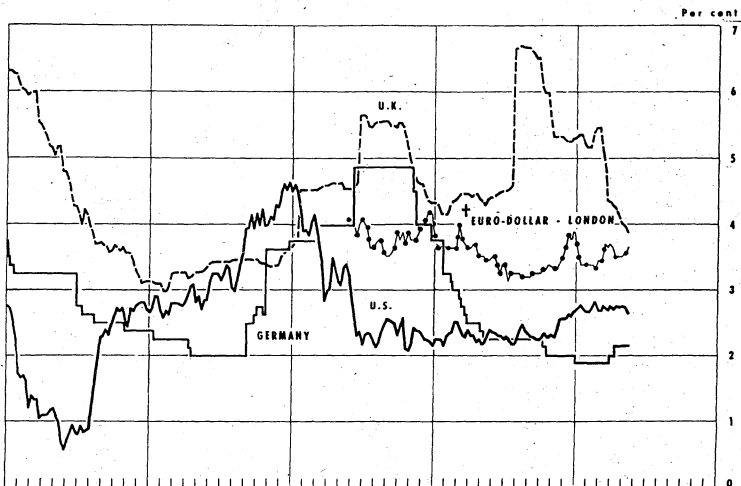


Chart 5  
SHORT-TERM INTEREST RATES \*



\* 3-month treasury bill rates for all countries except Japan (3-month interbank deposit rate) and Switzerland (3-month deposit rate).  
 † 3-month rate for U.S. dollar deposits in London

Chart 6  
**LONG-TERM BOND YIELDS**

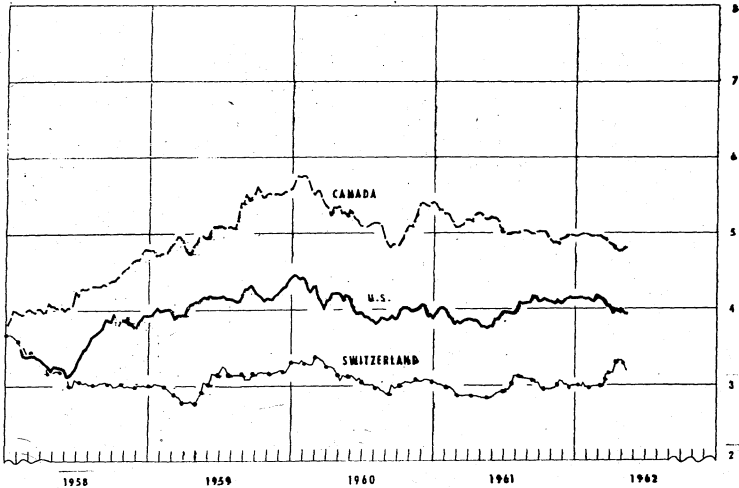
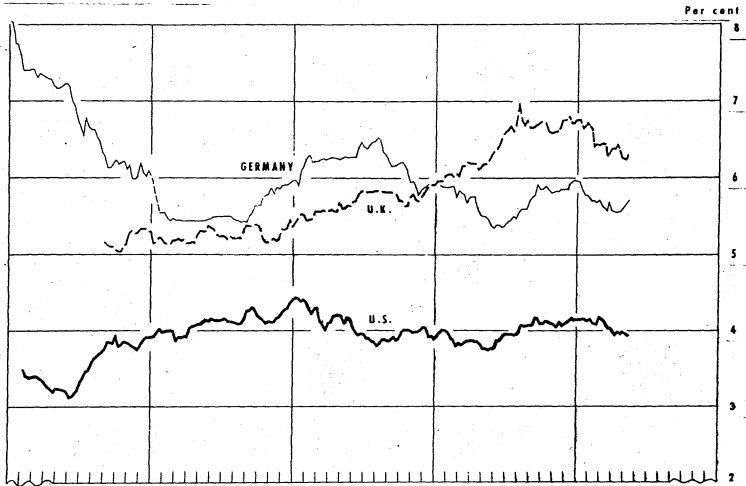
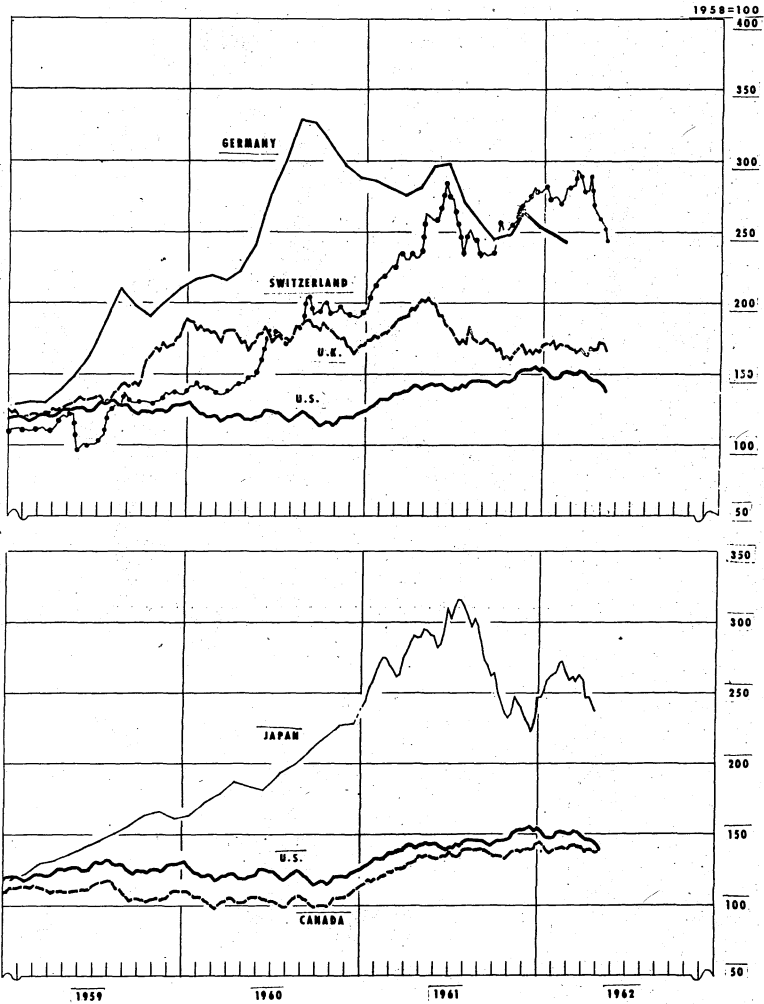


Chart 7

**INDUSTRIAL STOCK INDICES\***



\*Note: Japan: Index of all stocks traded on Tokyo exchange.

15

Chart 8

**SPOT EXCHANGE RATES - MAJOR CURRENCIES AGAINST U.S. DOLLAR**

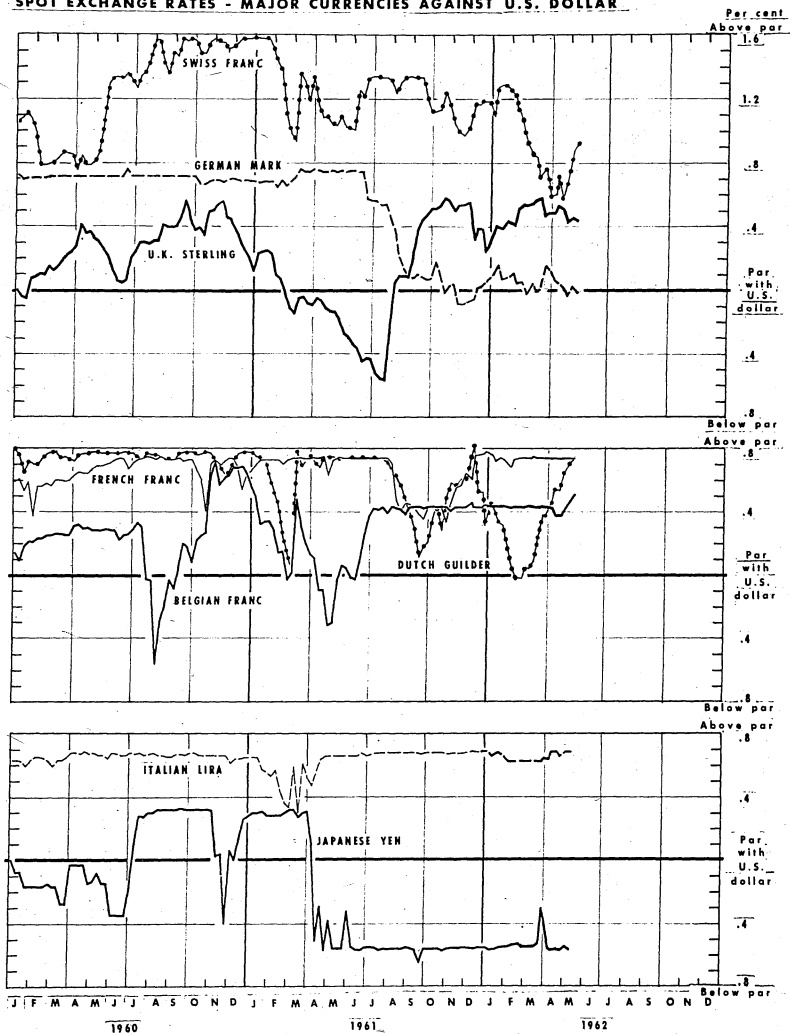


Chart 9  
3-MONTH FORWARD EXCHANGE RATES

